No. 16-1011

IN THE

Supreme Court of the United States

WESTERNGECO LLC

Petitioner,

v.

ION GEOPHYSICAL CORPORATION

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF AMICUS CURIAE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

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INTEREST OF AMICUS CURIÆ

The American Intellectual Property Law Association ("AIPLA") is a national bar association of approximately 13,500 members who are primarily lawyers engaged in private and corporate practice, in government service, and in the academic community. AIPLA's members represent a wide and diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, trade secret, and unfair competition law as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. Our mission includes helping establish and maintain fair and effective laws and policies that stimulate and reward invention while balancing the public's interest in healthy competition, reasonable costs, and basic fairness.[1]

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[1] In accordance with Supreme Court Rule 37.6, AIPLA states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than AIPLA and its counsel. Specifically, after reasonable investigation, AIPLA believes that (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to the litigation in this matter, (ii) no representative of any party to this litigation participated in the authorship of this brief, and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

AIPLA has no stake in the parties to this litigation or in the result of this case, other than its interest in the correct and consistent interpretation of the laws affecting intellectual property.[2]

SUMMARY OF ARGUMENT

A damages award for infringement under 35 U.S.C. § 271(f) that is based on foreign activity does not impermissibly extend U.S. law extraterritorially. This Court permits foreign conduct to be considered as long as domestic conduct is the focus of the federal statute in question. That is the case here.

Section 271(f) focuses on the domestic conduct of supplying components from the United States. Further, the patent damages statute, 35 U.S.C. § 284, focuses on compensating the patent owner for harm caused by domestic infringement, including § 271(f) infringement, wherever that harm occurs. Accordingly, courts may award foreign lost profits as a measure of harm arising from domestic infringement.

Such damages are properly limited to harm proximately caused by the domestic infringing activity. Patent infringement is essentially a tort. Tort damages traditionally are limited to harm proximately caused by the tortious acts. Further, the Court generally applies a proximate cause standard to federal statutes.

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[2] AIPLA has the consent of the parties to file this amicus brief, pursuant to Supreme Court Rule 37.3(a), based on letters filed with this Court on February 2, 2018 by Petitioner and on February 1, 2018 by Respondent granting blanket consent to the filing of amicus briefs.

The world increasingly is becoming a global market. This global market is enabled by innovations in communications, information technology, transportation and manufacturing that, in turn, enable outsourcing of traditional domestic activities. But such innovation is frustrated by the Federal Circuit's categorical rule that denies full compensation under § 284 for harm proximately caused by domestic infringement solely because such harm occurred abroad.

The Court should reverse the Federal Circuit and the categorical rule it established in this case against recovering foreign lost profits.

ARGUMENT

I. Awarding Foreign Lost Profits Does Not Impermissibly Extend U.S. Law Extraterritorialy

The presumption against the extraterritorial application of U.S. laws arises from a canon of statutory construction that, "[a]bsent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application." *RJR Nabisco, Inc. v. European Community*, 136 S.Ct. 2090, 2100 (2016).[3] Applying this Court's framework for analyzing extraterritoriality shows that awarding lost profits based on foreign sales will not run afoul of the presumption against extraterritoriality where that

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[3] *See also Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454 (2007) ("United States law governs domestically but does not rule the world.").

award remedies harm proximately caused by § 271(f) domestic infringement.

A. This Court's framework for analyzing extraterritoriality.

The Court has established a "two-step framework for analyzing extraterritoriality issues." *RJR Nabisco*, 136 S.Ct. at 2101. These *steps* are essentially two independent ways to determine whether enforcing a federal statute in a case that involves foreign conduct would impermissibly apply U.S. law extraterritorially.[4]

The first step considers whether the statute "gives a clear, affirmative indication that it applies extraterritorially," thus rebutting the extraterritoriality presumption. *Id.* If so, there is no need to consider the second step and the extraterritorial statute will apply to all foreign acts within its scope. *Id.*

The second step considers "whether the case involves a domestic application of the statute ... by looking at the statute's 'focus.' " *Id.*

> If the conduct relevant to the statute's focus occurred in the United States, then the case involves a permissible domestic application **even if other conduct occurred abroad**; but if the conduct relevant to the focus occurred in a foreign country, then the case involves an imper-

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[4] *See RJR Nabisco*, 136 S.Ct. at 2101 n.5 (do not need to apply steps in a particular order).

> missible extraterritorial application regardless of any other conduct that occurred in U.S. territory.

Id. (emphasis added.) The Court developed this framework in three cases.

In the first case, the Court found that the focus of congressional concern for a federal securities statute was "purchases and sale of securities in the United States" (rather than abroad as in that case). *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247, 266 (2010). It concluded that the statute could not be applied to foreign securities transactions even though the fraud involved domestic misrepresentations. *Id.* at 266.

In the second case, the Court found that all of the conduct relevant to the Alien Tort Statute in question occurred abroad. Thus no domestic conduct could fall within the statute's focus, however defined. *Kiobel v. Royal Dutch Petroleum Co.*, 133 S.Ct. 1659, 1669 (2013).

Finally, in ruling on a private right of action for RICO violations under 18 U.S.C. § 1964(c), the *RJR Nabisco* Court considered "'whether the court has authority to recognize a cause of action under U.S. law for injury suffered overseas." *RJR Nabisco*, 136 S.Ct. at 2109. The Court concluded that nothing in the statute "provides a clear indication that Congress intended to create a private right of action for injuries suffered outside of the United States." *Id.* at 2108.

The Court has not yet applied this framework to the patent statute. But doing so establishes that, consistent with this Court's prior patent law decisions,

foreign conduct may be considered to assess patent law remedies after establishing infringement based on domestic conduct.

B. Section 271(f) infringement actions are always permissible domestic applications of U.S. law even though foreign conduct is relevant.

The cause of action in this case is based on 35 U.S.C. § 271(f), which states in relevant part:

> (1) Whoever ... supplies or causes to be **supplied in or from the United States** ... components of a patented invention ... in such a manner as to actively induce the combination of such components outside the United States **in a manner that would infringe the patent if such combination occurred within the United States**, shall be liable as an infringer.
>
> (2) Whoever ... supplies or causes to be **supplied in or from the United States** any component of a patented invention ... intending that such component will be combined outside the United States **in a manner that would infringe the patent if such combination occurred within the United States**, shall be liable as an infringer.

35 U.S.C. § 271(f) (emphasis added.)

The statute's plain language references both domestic and foreign conduct. It defines an infringement based on the domestic act of "supplying" components from the United States and the supplier's intent regarding foreign combination of those components.

Section 271(f) infringement actions satisfy the second step of the Court's extraterritoriality framework, because the *focus* of the statute is domestic conduct. Specifically, the focus for one to be "liable as an infringer" under §271(f) concerns domestic acts—i.e., "supplies or causes to be supplied [component(s)] in or from the United States." Thus, unlike *Kiobel* and *RJR Nabisco*, liability under § 271(f) will not be based on foreign activity alone. Rather, given the plain statutory language, a § 271(f) cause of action always will arise from domestic conduct even though foreign conduct also is relevant.

The Court's prior case law confirms that § 271(f) focuses on infringement arising from domestic conduct even though foreign conduct is relevant. In *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), software on a "Golden Master" provided from the United States was copied onto computers abroad. The Court's liability determination focused on the alleged domestic conduct of "supplying" a component "from the United States." *Id.* at 452-454.

The legislative history further confirms that infringement under § 271(f) focuses on domestic conduct. Congress enacted § 271(f) in response to this Court's decision in *Deepsouth Packing Co. v. Laitram*, 406 U.S. 518 (1972). In *Deepsouth*, the defendant was found to infringe a patent by making a complete shrimp deveining machine in the United States, which it then exported. To avoid continued infringement, the defendant still made the machine components in the United States, but exported them for final assembly abroad. The *Deepsouth* Court held that the domestic conduct of making only components and

supplying them from the United States was not an infringement—i.e., the patent statute required fully combining the components to thus *make the completed invention* in the United States. *Id.* at 532.[5] In response, Congress enacted § 271(f) so that domestic acts of supplying components from the United States would be an infringement.[6]

In sum, under step two of the extraterritoriality framework, the plain statutory language, case law and legislative history all confirm that § 271(f) infringement will always arise from domestic acts that are the focus of the statute. Section 271(f) infringement actions, therefore, do not impermissibly extend the U.S. patent law exterritorialy even though foreign conduct is involved. *RJR Nabisco* at 2101.

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[5] In *Microsoft*, the Court explained: "Nor could Deepsouth be held liable as a direct infringer, for it did not make, sell, or use the patented invention—the fully assembled deveining machine—within the United States." *Microsoft*, 550 U.S. at 443.

[6] The *Microsoft* Court recognized this purpose explicitly: "Focusing its attention on *Deepsouth*, Congress enacted § 271(f). The provision expands the definition of infringement to include supplying from the United States a patented invention's components." *Id.* at 444-45.

C. Including harm from foreign conduct for full compensation under § 284 does not impermissibly extend U.S. law extraterritoriality.

Awarding § 284 damages for foreign harm caused by § 271(f) domestic infringing conduct does not create extraterritoriality concerns for at least three reasons.

Consider Cause of Action, Not Remedy. First, the Court's extraterritoriality framework addresses the cause of action, not the remedy. Under § 271(f), a party supplying components from the United States under certain circumstances "shall be liable as an infringer." Section 284 damages are not required to establish such infringement liability; indeed, the patent owner need not show or seek § 284 damages (e.g., the patent owner could seek only injunctive relief under § 283). The question of § 284 damages arises only after liability has been established—i.e., "upon finding for the claimant [patent owner]" that there is infringement. This Court has not applied its extraterritoriality framework to the relief granted once a cause of action is established.

This is consistent with the Court's prior patent decisions. For example, in *Goulds Manufacturing Company v. Cowing*, 105 U.S. 253, 253 (1882), infringement liability was based on the defendant's manufacture of the accused devices in the United States and the issue on appeal was limited to the remedy for such infringement—i.e., disgorgement of the infringer's

profits.[7] The remedy considered profits from the defendant's domestic and foreign sales: "there was no market for pumps adapted to this particular use, except in the oil-producing regions of Pennsylvania and **Canada**." *Goulds*, 105 U.S. at 256 (emphasis added). The Court awarded disgorgement of profits from all of the defendant's sales without parsing out profits from the Canadian sales. *Id.* at 257-258.

By contrast, this Court *Dowagiac* decision declined to disgorge foreign profits for devices sold in Canada, because the defendants who sold them had no domestic infringement liability:

> Some of the drills, about 261, sold by the defendants were sold in Canada, no part of the transaction occurring within the United States, and as to them there could be no recovery of either profits or damages. The right conferred by a patent under our law is confined to the United States and its Territories (Rev. Stat., § 4884) and infringement of this right cannot be predicated on acts wholly done in a foreign country. ... The cause of [*Goulds*] *Manufacturing Co. v. Cowing*, 105 U.S. 253, is cited as holding otherwise but is not in point. There the defendant made the infringing articles in the United

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[7] *See Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 650 (1915) (In *Goulds* "the defendant made the infringing articles in the United States."). Disgorgement of the infringers profits was an available remedy under the patent statute at that time.

> States. Here, while they were made in the United States, they were not made by the defendants. The latter's infringement consisted only in selling the drills after they passed out of the makers' hands. The place of sale is therefore of controlling importance here.

Dowagiac, 235 U.S. at 650.

Domestic Focus of § 284. Second, even if the extraterritoriality framework were extended to consider remedies, foreign harm properly may be used to measure § 284 damages under the second step of the framework. Specifically, § 284 provides for and focuses on damages that fully compensate "for the infringement" that has been established by domestic conduct under §271(f). Considering foreign harm proximately caused by such domestic conduct, therefore, does not impermissibly extend U.S. law extraterritorially. Indeed, because § 271(f) infringement considers the infringer's intent that supplied components will be combined abroad, full compensation for such infringement should include harm caused when such expected foreign combination actually occurs.

Infringer Willingly Subject To U.S. Domestic Law. Third, § 284 damages are awarded against only those who willingly subjected themselves to U.S. jurisdiction for the infringing conduct at issue. Only entities that perform the domestic conduct covered by § 271(f) are liable under that provision. Entities whose relevant conduct occurred entirely abroad—e.g., entities that combined abroad the components supplied from the U.S.—are not liable under § 271(f).

This is consistent with *Brown v. Duchesne*, 60 U.S. 183, 199 (1857), where an improved gaffe for sailing vessels covered by a U.S. patent was made and installed abroad on a foreign vessel. The patent holder sought to establish infringement liability based on that vessel entering and anchoring in a U.S. port. The Court ruled that liability in such instances "were not in the contemplation of Congress in enacting the patent laws, and cannot, upon any sound construction, be regarded as embracing them." *Id.* at 196-197. In contrast, § 271(f) plainly contemplates infringement liability arising from specified domestic conduct.

Accordingly, awarding lost profits for sales lost in foreign countries does not impermissibly extend either § 271(f) or § 284 extraterritorially.

II. Section 284 Of The Patent Statute Provides Uniformly—For All Infringement Actions—*Full Compensation* For Any Harm *Proximately Caused* By The Domestic Infringing Conduct

Section 284 of the patent statute provides damages "for the infringement" "upon finding for the claimant," stating in relevant part:

> **Upon finding for the claimant** the court shall award the claimant **damages adequate to compensate for the infringement**, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interests and costs as fixed by the court.

35 U.S.C. § 284 (emphasis added).

As discussed below, the statutory language and this Court's jurisprudence establish that such damages must fully compensate the patent owner for all harm proximately caused by the infringing conduct, including harm abroad. Further, the damages statute provides no special limits on remedies for § 271(f) infringement, but applies uniformly for all types of infringement actions. Moreover, providing full compensation under § 284 for foreign harm proximately caused by domestic infringement is essential to the nation's patent system.

A. Section 284 patent damages require full compensation for harm proximately caused by the infringing conduct.

The Court has held that § 284 is directed to recovering "damages" from harm caused by the infringement:

> [Patent damages] have been said to constitute "the difference between [the patent owner's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." The question to be asked in determining damages is how much had the Patent Holder and Licensee suffered by the infringement. And that question [is] primarily: had the infringer not infringed, what would Patent Holder-Licensee have made?

Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 507 (1964) (quoting *Yale Lock Mfg. Co. v.*

Sargent, 117 U.S. 536, 552 (1886)) (some internal quotations and citations omitted).

In *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983), this Court reviewed the statutory language and legislative history of § 284 and held that "Congress sought to ensure that the patent owner would in fact receive *full compensation for 'any damages' he suffered* as a result of infringement." *Id.* at 654-655 (emphasis added.) The Court explained that "Congress expressly provided in § 284 that the court 'shall award the claimant *damages adequate to compensate* for the infringement." *Id.* at 655. For example, awarding prejudgment interest "ensure[s] that the patent owner is *placed in as good a position as he would have been* in had the infringer entered into a reasonable royalty agreement" and "serves to *make the patent owner whole.*" *Id.* at 655-56 (emphasis added).

The language of § 284 and this Court's *General Motors* decision leave little doubt that the patent owner should be fully compensated for all harm caused by the infringement. That authority requires:

- "damages adequate to compensate for the infringement,"
- "full compensation for 'any damages ... suffered,"
- an award that places the patent owner "in as good a position as he would have been in," and
- an award to "make the patent owner whole."

Id. at 654-656.

Thus, for example, patent owners may recover damages based on lost profits that the patent owner would have earned but for lost sales due to the infringing conduct.[8]

Such full compensation is properly limited to harm *proximately caused* by the infringement. The Court has held that patent "[i]nfringement ... is essentially a tort."[9] Tort damages traditionally are limited to harm proximately caused by the tortious conduct.[10] Further, the Court recently explained that federal statutory causes of action generally require proximate causation:

> [W]e generally presume that a statutory cause of action is limited to plaintiffs whose injuries are proximately caused by violations of the statute. For centuries, it has been a well established principle of [the common law], that in all cases of loss,

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[8] *See, e.g., Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978); *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (*en banc*).

[9] *Carbice Corp. of America v. America Patents Development Corp.*, 283 U.S. 27, 33 (1931); *see also Aro*, 377 U.S. at 500 ("a contributory infringer is a species of joint-tortfeasor").

[10] *See Petitions of Kinsman Transit Co.*, 388 F.2d 821, 824-825 (2nd Cir. 1968) (could not recover damages for harm arising from a sequence of events triggered by negligence because the harm was "too 'remote' or 'indirect' a consequence of defendants' negligence": negligence caused a ship to become unmoored and collide into another ship, causing both ships to drift downstream and strike a bridge that then collapsed and blocked river traffic; "somewhere a point will be reached when courts will agree that the link has become too tenuous").

> we are to attribute it to the proximate cause, and not to any remote cause. That venerable principle reflects the reality that the judicial remedy cannot encompass every conceivable harm that can be traced to alleged wrongdoing. Congress, we assume, is familiar with the common-law rule and does not mean to displace it sub silentio. We have thus construed federal causes of action in a variety of contexts to incorporate a requirement of proximate causation.

Lexmark Intern. v. Static Control, 134 S. Ct. 1377, 1390 (2014).

In sum, the Court should confirm that § 284 provides for full compensation for all harm that the patent owner suffered that was proximately caused by the infringing conduct, including harm abroad.

B. Section 284 applies uniformly to all types of infringement actions.

Section § 271 defines different types of patent infringement. However, it does not prescribe their remedy. Rather, § 284 supplies the damages remedy for different types of infringement. Thus, for example, § 284 provides for damages for the following statutory infringements:

- § 271(a) defines domestic conduct for which someone directly "**infringes** the patent."[11]

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[11] 35 U.S.C. § 271(a).

- § 271(b) defines domestic conduct for which someone who induces infringement "**shall be liable as an infringer.**"[12]
- § 271(c) defines domestic conduct for which someone "**shall be liable as a contributory infringer.**"[13]

The infringement statute at issue here uses similar language:

- § 271(f) defines certain domestic conduct for which someone "**shall be liable as an infringer.**"

The Court's § 284 jurisprudence has explained that "[w]hen Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly." *General Motors*, 461 at 653. Nothing in the statutory language for infringement suggests treating § 271(f) differently from any other § 271 infringement action. And nothing in § 284 suggests that the damages available for § 271(f) infringement should be treated differently from damages available for any other § 271 infringement action.

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[12] 35 U.S.C. § 271(b).

[13] 35 U.S.C. § 271(c).

C. Providing Full Compensation Under Section 284 For Foreign Harm Proximately Caused by Domestic Patent Infringement Is Essential To The U.S. Patent System

The Federal Circuit's decision categorically denies patent owners recovery for foreign losses caused by domestic acts of infringement. This Court has consistently corrected attempts to impose categorical rules in the patent law, and the Court should do so here.[14]

The world is becoming a single, global marketplace. Innovations in communications, transportation, and manufacturing allow instant sharing of information anywhere in the world and facilitate distributing products globally. Such innovations were achieved through substantial investments and risks taken by innovators. They have been incentivized by the prom-

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[14] *See, e.g., Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 737-38 (2002) (rejecting automatic bar against applying the doctrine of equivalents to patent limitations that were amended during prosecution of a patent); *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 394 (2006) ("Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief."); *Octane Fitness v. Icon Health & Fitness*, 134 S.Ct. 1749, 1756 (2014) (The Federal Circuit's framework for awarding attorney fees to the prevailing party under 35 U.S.C. § 285 in patent cases "is overly rigid" and "superimposes an inflexible framework onto statutory text that is inherently flexible."); *see also Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (rejecting categorical rule that business methods are not patentable).

ise of patent protection. Such incentives are weakened by the Federal Circuit's categorical rule that precludes innovators from recuperating losses sustained abroad from domestic infringement.

As the world becomes a single marketplace, the prospect of harm abroad caused by domestic acts of infringement will only increase. Cutting-off relief at the border undermines the value of patents and the incentives to innovate.

III. The Court's Decision Here Should Be Narrowly Tailored With Guidance For Case Law To Develop The Proximate-Cause Standard

This Court has acknowledged that what constitutes proximate cause is not always clearly defined, but courts are well-equipped to develop its contours:

> The proximate-cause inquiry is not easy to define, and over the years it has taken various forms; but courts have a great deal of experience applying it, and there is a wealth of precedent for them to draw upon in doing so. Proximate-cause analysis is controlled by the nature of the statutory cause of action. The question it presents is whether the harm alleged has a sufficiently close connection to the conduct the statute prohibits.

Lexmark, 134 S.Ct. at 1390.

Allowing such case-by-case development is prudent. Two examples where some amount of harm

abroad may be caused by domestic acts of infringement show how proximate cause should play a role in determining the proper amount of damages under § 284.

Single Product Example. Infringer makes in the U.S. components A, B and C that are supplied from the U.S. and assembled overseas to form a product that practices the patented invention, giving rise to §271(f) liability. Those assembled products are sold overseas by a competitor of the patent owner, causing the patent owner to lose foreign sales. Each act of supplying the components results in assembly and sale of a single competing product abroad to which the patent owner loses sales and profits for its product.[15] In sum, each single act of domestic infringement causes a single lost sale abroad and lost profits therefrom—i.e., a direct one-to-one correlation.

Design Example. Infringer makes and tests various prototypes of a product in the U.S. that include the patented invention, which gives rise to liability under §271(a) for making and using the invention. After perfecting the prototype design by its infringing activities in the U.S., the infringer provides the design to a manufacturer overseas that makes and sells products that include the patented invention. The patent owner loses foreign sales (and profits therefrom)

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[15] This example is based in part on the facts of the Court's decisions in *Deepsouth* (three components of patented shrimp deveining machine supplied from U.S. for assembly abroad) and *Cowing* (disgorge profits for sales in Canada for machines made in the U.S.).

to those competing products.[16] In this example, a few domestic acts of infringement cause substantially more instances of lost sales abroad and lost profits therefrom.

CONCLUSION

For the foregoing reasons, AIPLA respectfully requests that the Court reject the Federal Circuit's categorical bar against recovering damages for foreign harm caused by domestic infringement.

Respectfully submitted,

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[16] This example is based in part on the facts of *Carnegie Mellon Univ. v. Marvell Tech. Group*, 807 F.3d 1283 (Fed. Cir. 2015) and *Power Integrations, Inc. v. Fairchild Sem. Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013).